

TEACHERS RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Audit Status Report – Internal, School  
District & Compliance

ITEM NUMBER: 9a

ATTACHMENTS: 1

ACTION: \_\_\_\_

DATE OF MEETING: September 3, 1998

INFORMATION: X

PRESENTER: Mr. Lee

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The attached report summarizes the status of the assignments within the Office of Audits as of June 30, 1998.

	<u>Internal</u>	<u>District</u>	<u>Compliance</u>
Prelim/Field Work in Progress	3	0	15
Audits/Cases being Prepared for Review	0	12	0
Audits/Cases to be Re-assigned	2	0	0
Audits/Cases in Review	3	6	7
Re-work being done	2	2	
Re-work in review	1	4	
Audits / Cases in Mgmt Review	NA	1	0
Auditee Case Response Period	1	NA	NA
Draft Reports/Cases Issued	0	2	0
 Final Reports Issued	<u>7</u>	<u>14</u>	<u>55</u>
Subtotal	16	35	77
Final Reports Issued	<u>( 7)</u>	<u>(14)</u>	<u>(55)</u>
 Subtotal	9	21	22
Audits/ Cases Reassigned	<u>( 2)</u>	—	—
 Total	7	21	22
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**OFFICE OF AUDITS  
STATUS OF AUDIT ASSIGNMENTS  
JULY 1, 1997 – JUNE 30, 1998**

**Attachment I  
Item 9/Budgets & Audits  
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**A. INTERNAL AUDITS:**

<b>Number</b>	<b>Assignment</b>	<b>Status</b>
	<b>Audits in Progress (3):</b>	
A-95013	START Project	Preliminary work in progress
A-95016	Death Match	Field work in progress
A-98028	Survivor Benefits	Preliminary work in progress.
	<b>Audits Being Prepared for Review (0):</b>	
	<b>Audits to be Re-Assigned (2):</b>	
A-95010	Benefit Overpayments	To be Re-assigned.
A-96017	Billing & Collecting Receivables from Districts	To be Re-assigned.
	<b>Audits in Review (3):</b>	
A-96018	Purchase of Equities	
A-96020	Sale of Equities	
A-97027	Alternative Investments	

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**A. INTERNAL AUDITS (continued):**

<b>Number</b>	<b>Assignment</b>	<b>Status</b>
	<b>Auditee/Case Response Period (1):</b>	
A-97026	Payment & Adjustment of Disability Benefits	Review findings with Auditee
	<b>Final Reports Issued (7):</b>	
A-96024	Disability Benefit Application Process	Final report issued 6/18/98
A-93002	Processing Applications of Client Benefits	Final report issued 1/7/98
A-96025	Financial & Management Reporting Process	Final report issued 1/13/98
J-97801	Review of Blank Check Stock	Final report issued 12/22/97
A-93004	Benefit Payments	Final report issued 9/4/97
A-96023	Cash Receipts & Cash Disbursements	Final report issued 4/20/98
A-95012	SAM 20000	Final report issued 7/25/97

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**B. SCHOOL DISTRICT AUDITS:**

<b>Number</b>	<b>Assignment</b>	<b>Status</b>
	<b>Audits being Prepared for Review (12):</b>	
D-95245	Grossmont Union	Work papers being completed.
D-95246	River Delta Unified	Work papers being completed.
D-95247	Davis Joint Unified	Work papers being completed.
D-96250	Mark Twain	Work papers being completed.
D-96251	Bret Harte Union	Work papers being completed.
D-96252	Calaveras Unified	Work papers being completed.
D-96253	Vallecito H.S.D.	Work papers being completed.
D-96257	Compton	Work papers being completed.
D-96261	San Juan Unified	Work papers being completed.
D-97264	Lynwood	Work papers being completed.
D-97265	North Sacramento	Work papers being completed.
D-97266	Los Angeles County	Work papers being completed.
	<b>Audits in Review (0):</b>	

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**B. SCHOOL DISTRICTS AUDITS (continued):**

<b>Number</b>	<b>Assignment</b>	<b>Status</b>
	<b>Re-Work being done (2):</b>	
D-94210	San Mateo Union	Re-work being done.
D-96262	Sacramento City Unified	Re-work being done.
	<b>Re-Work in Review (4):</b>	
D-94216	Palo Alto Unified	Re-work in review.
D-94222	Lincoln Unified	Re-work in review.
D-96248	Pomona Unified	Re-work in review.
D-96249	Calaveras C.O.E	Re-work in review.
	<b>Draft Reports Issued (2):</b>	
D-95230	Anaheim Union	Draft report issued 6/25/98.
D-95243	Inglewood Unified	Draft report issued 5/27/98.

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**B. SCHOOL DISTRICT AUDITS (continued):**

<b>Number</b>	<b>Assignments</b>	<b>Status</b>
	<b>Audits/Cases in Management Review(1):</b>	
D-95240	Vista Unified	Scheduled for July 98 ARRC.
	<b>Final Reports Issued (14):</b>	
D-94225	Antioch Unified	Final report issued 4/21/98.
D-94226	Fremont Union	Final report issued 4/17/98.
D-95231	Newport-Mesa Unified	Final report issued 6/29/98.
D-95232	Orange Unified	Final report issued 3/30/98.
D-95235	Palm Springs Unified	Final report issued 3/30/98.
D-95242	ABC Unified	Final report issued 5/29/98
D-96244	Baldwin Park H.S.D.	Final report issued 5/28/98.
D-96254	Baldy View ROP	Final report issued 6/23/98.
D-96255	La Puente ROP	Final report issued 6/25/98.
D-96256	East San Gabriel ROP	Final report issued 3/30/98.
D-96258	Riverside Unified	Final report issued 4/21/98.
D-96259	Corona-Norco Unified	Final report issued 4/21/98.
D-96260	Long Beach Unified	Final report issued 4/17/98.
D-96263	Glendale Unified	Final report issued 2/5/98.

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**C. COMPLIANCE CASES:**

<b>Number</b>	<b>Assignments</b>	<b>Status</b>
	<b>Cases in Progress (15):</b>	
C-2150	Barstow Unified School District	Case work in progress.
C-2164	Oakland Unified School District	Case work in progress.
C-2166	Oakland Unified School District	Case work in progress.
C-2167	Oakland Unified School District	Case work in progress.
C-2168	San Joaquin Delta Community College District	Case work in progress.
C-2169	San Joaquin Delta Community College District	Case work in progress.
C-2170	San Joaquin Delta Community College District	Case work in progress.
C-2178	Santa Ana Unified School District	Case work in progress.
C-2183	San Juan Unified School District	Case work in progress.
C-2185	San Juan Unified School District	Case work in progress.
C-2186	San Juan Unified School District	Case work in progress.
C-2187	Rio Linda Unified Elementary School District	Case work in progress.
C-2188	Sacramento City Unified School District	Case work in progress.
C-2189	North Sacramento Elementary School District	Case work in progress.
C-2191	Oakdale Union Elementary School District	Case work in progress

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**C. COMPLIANCE CASES (continued):**

<b>Number</b>	<b>Assignments</b>	<b>Status</b>
	<b>Cases in Review (7)</b>	
C-2127	Gilroy Unified School District	Case in review
C-2148	Victor Valley Unified School District	Case in review
C-2176	Pleasanton & Dublin Unified School District	Case in review
	Empire Unified School District	Case in review
	Woodlake Unified School District	Case in review
	Siskiyou County Office of Education	Case in review
	Asus Unified School District	Case in review
	<b>Case Dropped (1)</b>	
C-2128	Redding Elementary School District	Dropped



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**C. COMPLIANCE CASES:**

<b>Number</b>	<b>Assignments</b>	<b>Status</b>
	<b>Final Report Issued (55):</b>	
C-2101	Coast Community College	Final report issued 3/19/98
C-2106	San Diego City Unified School District	Final report issued 3/19/98.
C-2108	San Diego City Unified School District	Final report issued 5/20/98.
C-2109	San Diego City Unified School District	Final report issued 3/19/98
C-2113	San Diego City Unified School District	Final report issued 3/24/98.
C-2114	Colton, Redlands, Yucapa ROP	Final report issued 8/26/97.
C-2115	San Diego City Unified School District	Final report issued 3/24/98.
C-2116	San Diego City Unified School District	Final report issued 9/16/97.
C-2117	San Diego City Unified School District	Final report issued 1/13/98
C-2126	Hueneme Elementary School District	Final report issued 8/28/97
C-2130	La Habra City Elementary School District	Final report issued 6/4/98
C-2130	Silver Fork Unified School District	Final report issued 10/15/97
C-2131	Capistrano Unified School District	Final report issued 4/14/98
C-2132	Oakland, Hayward, and Rialto USD	Final report issued 10/16/97
C-2134	Garden Grove Unified School District	Final report issued 7/23/97
C-2135	Irvine Unified School District	Final report issued 4/23/98
C-2136	Chino Unified School District	Final report issued 11/10/97
C-2137	Chino Unified School District	Final report issued 11/13/97

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<b>Number</b>	<b>Assignments</b>	<b>Status</b>
C-2139	San Diego City Unified School District	Final report issued 1/13/98
C-2140	San Diego City Unified School District	Final report issued 6/17/98
C-2141	San Diego City Unified School District	Final report issued 1/13/98
C-2142	San Diego City Unified School District	Final report issued 1/13/98
C-2143	San Diego City Unified School District	Final report issued 1/13/98
C-2144	San Diego City Unified School District	Final report issued 2/23/98
C-2146	Mountain Valley USD & Trinity COE	Final report issued 1/13/98
C-2147	Fontana Unified School District	Final report issued 6/19/98
C-2149	Chaffey Community College District	Final report issued 4/9/98
C-2151	Silver Fork Unified School District	Final report issued 3/16/98
C-2152	Grossmont Union School District	Final report issued 3/17/98
C-2153	Poway Unified School District	Final report issued 4/30/98
C-2154	Cajon Valley Union School District	Final report issued 3/17/98
C-2156	San Jose Unified School District	Final report issued 6/3/98
C-2157	San Jose Unified School District	Final report issued 5/20/98
C-2158	Foothill, Deanza Community College District	Final report issued 3/23/98
C-2159	Foothill, Deanza Community College District	Final report issued 4/23/98
C-2160	Moreland Elementary School District	Final report issued 3/16/98
C-2161	Campbell Union Elementary School District	Final report issued 3/27/98
C-2165	Oakland Unified School District	Final report issued 5/27/98
C-2171	Santa Ana Unified School District	Final report issued 5/13/98

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<b>Number</b>	<b>Assignments</b>	<b>Status</b>
C-2172	Newport-Mesa Unified School District	Final report issued 6/18/98
C-2173	Tustin Unified School District	Final report issued 4/27/98
C-2174	Coast Community College District	Final report issued 4/22/98
C-2175	Coast Community College District	Final report issued 5/6/98
C-2177	Saddleback Community College District	Final report issued 5/21/98
C-2179	Saddleback Community College District	Final report issued 6/3/98
C-2180	Saddleback Community College District	Final report issued 6/9/98
C-2181	Saddleback Community College District	Final report issued 5/28/98
C-2182	Hayward Unified School District	Final report issued 6/9/98
C-2184	Los Rios Community College District	Final report issued 6/24/98
C-2190	Rio Linda Union Elementary School District	Final report issued 6/18/98
	Pioneer Elementary Unified School District	Final report issued 3/13/98
	Newport-Mesa School District	Final report issued 6/15/98
	Oak Grove Elementary School District	Final report issued 4/13/98
	Mountain Valley Unified School District	Final report issued 12/9/97
	Val Verde Unified School District	Final report issued 4/15/98

TEACHERS' RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Internal Audit Final Report: Disability  
Benefit Application Process

ITEM NUMBER: 9b

ATTACHMENTS: \_\_\_\_

ACTION: \_\_\_\_

DATE OF MEETING: September 3, 1998

INFORMATION: X

PRESENTER: Mr. Lee

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We completed the audit of the Disability Benefit Application Process and related internal controls for the period of January 1, 1996 to January 1, 1998. Our review disclosed the following matters, which require management's attention and action:

- The standard operating procedures for the Disability Services Program have not been updated. According to Government Code Sections 13400 –13407, elements of a satisfactory system of internal and administrative controls include an established system of practices to be followed in the performance of duties and functions within the agency. As a result of this finding, the review and update of the Disability Program policies and procedures was assigned to division staff in January of 1998.
- Documentation to support the financial dependency of a member's child at the time of application was insufficient. Allowances payable for disabilities are increased by 10 percent of the member's final compensation for each dependent child, up to a maximum of 40 percent or four dependents. Section 22123(a) of the Teachers' Retirement Law defines dependent as "more than one-half of the child's support was being provided by the member at the time of the member's disability." Section 22123(b) states that "the System may require that income tax records and similar substantiating data be submitted by the member to support financial dependency. Management has concurred with the audit finding and is in the process of investigating the appropriateness of documentation needed to ensure compliance with Sections 22123(a) and 22123(b) of the Teacher' Retirement Law.
- Use of the postmark date instead of the STRS receipt date to formally record the application receipt date does not comply with Retirement Law. Sections 24005 and 24105 of the Teacher's Retirement Law states that the benefit effective date can be no earlier than the first day of the month in which the application is received by the System in Sacramento. This practice can result in the allowance of a benefit effective date as much as one month earlier than would be allowed under Retirement Law. Management concurred with this finding and has implemented a policy to use only the "STRS application receipt date" when recording the receipt of disability benefit applications.

TEACHERS' RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Final School District Audit Reports -

ITEM NUMBER: 9c

ATTACHMENTS: 7

ACTION:       

DATE OF MEETING: September 3, 1998

INFORMATION: X

PRESENTER: Mr. Lee

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- a. ABC Unified School District
- b. Baldwin Park Unified School District
- c. Baldy View Regional Occupational Program
- d. La Puente Valley Regional Occupational Program
- e. Newport-Mesa Unified School District
- f. Mark Twain Union Elementary School District
- g. Bret Harte Union High School District

In accordance with auditing standards, the results of our audits are presented to the Budgets and Audits Committee to facilitate its oversight responsibility. The attached Executive Summaries present the highlights of seven final audit reports we issued in the period of May through July 1998.

The seven final audit reports present 9 findings, several of which are very similar in nature, affecting the accounts of 31 active and retired members. This summary is presented in terms of the types of findings. The attached executive summaries present the findings by district.

**Two Districts Found In Compliance With Reporting Requirements:** The Mark Twain Union Elementary and Bret Harte Union High School Districts in Angels Camp, Calaveras County, were found to be in compliance with STRS reporting requirements. Although the districts are very small, each district has to comply with all requirements. Our audit tests are designed to focus on areas mostly likely to cause reporting errors and we did not detect any reportable errors in our testing of 12 members of the 86 total members in both districts. We are always pleased to find districts in compliance with requirements.

**Sick Leave Findings:** Three districts did not include paid vacation days in the contract base service days which is necessary to calculate the proper amount of sick leave service credit. This common error causes the member's sick leave service credit and retirement allowance to be overstated. One district did not separate the unused excess sick leave days from the basic sick leave days and therefore did not pay STRS the present value needed to adequately fund the increased retirement allowance. One district did not report a change to a member's sick leave balance after the Express Benefit had been submitted. These three errors are fairly common occurrences.

We found an unusual error in which the district reported a balance greater than what a member reasonably would have at the end of his career. The member's balance was overstated by 112.5 days and when STRS asked the district to review his balance, the district did not discover the true error. As a result, the district reported 65 days as excess days and inappropriately paid STRS \$4,323.10 for the present value cost. These sick leave errors caused a reduction in three members' allowances of \$16.62, \$25.33, and \$66.12. The total net present value cost of these errors was \$16,510.87.

**Creditable Compensation Findings:** One district reported non-creditable payments totaling \$4,135.50 paid to five teachers when they had additional pupils in their classroom because a substitute teacher was not available. A member, who received \$3,748.40 for this extra service, retired and her allowance was overstated by \$64.02 per month with a present value cost of \$8,680.03. This district also reported non-creditable stipends totaling \$12,406.43 paid to two full-time elementary school principals for working the summer school session. One principal retired and his payments caused his allowance to be overstated by \$149.74 per month with a present value cost of \$20,111.49

One ROP reported creditable longevity stipends totaling \$2,300 for three members as non-creditable compensation in the 1995-96 school year. Longevity stipends are creditable. If the members were to retire and this year was used to determine their benefits, their lifetime retirement allowances would have been less than the law allows.

One district reported department chair stipends when release time was not provided. When a district does not provide release time, department chair stipends are not creditable compensation. Ten members retired and these non-creditable stipends caused their allowances to be overstated by amounts ranging from \$13.63 to \$112.06 per month with a net present value cost of \$105,596.

**Full-Time Equivalent Pay Rate:** One ROP inappropriately included 39 summer session days in the teachers' annual full-time equivalent pay rates for the 1995-96 school year. Summer school earnings have been excluded from creditable compensation, and therefore from the full-time equivalent (FTE) earnable, since at least 1980. The ROP stated that it inadvertently included summer school service in determining the annual pay rate for its teachers for the past 12 years. The ROP combined 39 summer school days with 171 days for the fall and spring semesters for a total FTE of 210 days. By using the inappropriate 210-day FTE, **only** those teachers who worked full-time in the fall and spring semesters **and** the summer session were credited with a full year of service credit. Full-time teachers who did not work the summer session could be credited with only .8143 of a year of service credit. Part-time teachers received less service credit than allowed because the ROP used the higher 210-day FTE.

The cost to complete these seven audits, which includes staff time, travel, and per diem, was \$60,982. With a total savings of \$163,360 to the System, the audit benefit was more than \$2.67 for each \$1 expended. It should be noted also that the benefits from field audits are not limited to savings resulting from corrections of contributions or inflated retirement allowances. Also important are the on-site training that occurs as a by-product of audit discussions in the field, and the deterrent effect of the program of auditing randomly selected districts.

**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of ABC Unified School District  
Cerritos, CA**

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Period Audited:      July 1, 1994 to July 31, 1995 - For Audit of Active Members  
                             July 1, 1989 to Dec 31, 1995 - For Audit of Retired Members

Audit Report Date:    May 29, 1998

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**Audit Cost-Benefit Summary:**

<u>Benefit:</u>		<u>Cost:</u>	
Corrections to contributions	\$        0	Direct costs	
Retirement allowance, unfunded liability (net present value)	3,797	(Staff salaries, fringe benefits, travel and per diem)	\$15,151
Excess post-retirement earnings	<u>          0</u>		
 TOTAL DOLLAR EFFECT	 <u>\$   3,797</u>	<b>Benefit per Dollar Spent</b>	<b>\$0.25</b>
 Unreported post-retirement earnings	 <u>\$        0</u>		

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**1. Finding:**

**The District Reported Incorrect Unused Sick Leave Days:** The District inappropriately reported ten excess sick leave days as basic sick days for the former Superintendent, who retired on October 28, 1994. The District should have reported 234.91 basic sick days and 10 excess sick days and paid STRS \$1,031, the present value required to fund the additional retirement benefits received by the member.

**Adjustment Needed:** The District was required to submit the adjustment using STRS Employment Termination or Sick Leave Data Correction Form (SR 0559), and remit the present value of \$1,031 to STRS for the excess sick leave days for its former Superintendent.

## **2. Finding:**

**District Reported Incorrect Contract Base Service Days:** The District reported to STRS incorrect contract base service days for its former Superintendent, who retired on October 28, 1994.

The District reported the former Superintendent's contract base service days as 219 days on the Express Benefit Report, Form (SR 0554E). The District inappropriately excluded the 28 paid vacation days from base service days. The contract base service days should have been 247 days, which include 219 working days plus 28 paid vacation days. Because the District did not report the corrections, the members' retirement allowance was overstated by \$16.62 per month, which caused an unfunded liability of \$2,766.

**Adjustment Needed:** The District was required to submit the adjustment using STRS Employment Termination or Sick Leave Data Correction Form (SR 0559) to adjust the contract base service days for the former Superintendent.



**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of Baldwin Park Unified School District  
Baldwin Park, CA**

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Periods Audited: July 1, 1995 to June 30, 1996 - For Audit of Active Members  
July 1, 1990 to December 31, 1996 - For Audit of Retired Members

Audit Report Date: May 28, 1998

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**Audit Cost-Benefit Summary:**

<u>Benefit:</u>		<u>Cost:</u>	
Corrections to contributions	\$ 465	Direct costs	
Retirement allowance, unfunded liability (net present value)	28,792	(Staff salaries, fringe benefits, travel and per diem)	<u>\$ 12,569</u>
Excess sick leave (net present value)	0		
Excess post-retirement earnings	<u>0</u>		
 TOTAL DOLLAR EFFECT	<u>\$29,257</u>	 <b>Benefit per Dollar Spent</b>	<b>\$ 2.33</b>
 Unreported post-retirement earnings	 <u>\$ 0</u>		

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**1. Finding:**

**The District Inappropriately Reported Extra Pupil Payments As Creditable Earnings:**

The District inappropriately reported to STRS, as creditable compensation, non-creditable payments totaling \$4,135.50 paid to five teachers when they had additional pupils in their classrooms, because a substitute teacher was not available. Four of the five teachers are active members and were paid a total of \$387.10 for extra pupils. The last teacher, now retired, had a total of \$3,748.40 included in his final compensation thereby increasing his retirement allowance by \$64.02 per month with a present value of \$8,680.03.

**Adjustment Needed:**

The District must submit corrections to STRS on the STRS Form F-496, Monthly Report of Retirement Contributions, in accordance with Education Code section 23008(a) to eliminate the \$4,135.50 in non-creditable stipends. The District must return the contribution amounts to five members. In the future, the District must ensure that non-creditable compensation is not reported to STRS.

## **2. Finding:**

### **The District Inappropriately Reported Summer School Payments As Creditable Earnings:**

The District inappropriately reported to STRS, as creditable compensation, non-creditable stipends totaling \$12,406.43 paid to two full-time elementary school principals. One of the principals retired from STRS and his summer school earnings were \$9,933.20 for three years, 1991-1993 were used to calculate his retirement allowance caused an overstatement of \$149.74 in monthly retirement allowance with an associated present value of \$20,111.49. The other principal was an active member of the District and was paid \$2,473.23 for summer school principal in the 1995-1996 school year.

### **Adjustment Needed:**

The District must submit corrections to STRS on the STRS Form F-496, Monthly Report of Retirement Contributions, in accordance with Education Code section 23008(a) to eliminate the \$12,406.43 in non-creditable stipends. The District must return the contribution amounts to the two members. In the future, the District must ensure that non-creditable compensation is not reported to STRS.

**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of Baldy View ROP  
Claremont, CA**

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Period Audited: July 1, 1995 to June 30, 1996 For Audit of Active Members  
July 1, 1990 to June 30, 1996 For Audit of Retired Members

Audit Report Date: June 23, 1998

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**Audit Cost-Benefit Summary:**

<u>Benefit:</u>		<u>Cost:</u>	
Corrections to contributions	\$ 4,471	Direct costs	
Retirement allowance, unfunded liability (net present value)		(Staff salaries, fringe benefits, travel and per diem)	\$5,798
Excess post-retirement earnings	_____		
 TOTAL DOLLAR EFFECT	 <u>\$ 4,471**</u>	 <b>Benefit per Dollar Spent</b>	 <b>\$ .77**</b>
 Unreported post-retirement earnings	 <u>\$ 0</u>		

\*\* Based on tested accounts only, required corrections will increase these amounts significantly.

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**1. Finding:**

**The ROP Included Summer Session Days In The Teachers' Full-Time Equivalent Pay-Rate.** The ROP inappropriately included 39 summer session days in the teachers' annual full-time equivalent pay rates for the 1995-96 school year. Consequently, the ROP inappropriately reported approximately 13 teachers' summer school earnings as creditable compensation.

Summer school earnings have been excluded from creditable compensation, and therefore from the full-time equivalent (FTE) earnable, since at least 1980. The ROP stated that it inadvertently included summer school service in determining the annual pay rate for its teachers for the past 12 years. The ROP combined 39 summer school days with 171 days for the fall and spring semesters for a total FTE of 210 days. By using the inappropriate 210-day FTE, **only** those teachers who worked full-time in the fall and spring semesters **and** the summer session were credited with a full year of service credit. Full-time teachers who did not work the summer session could be credited with only .8143 of a year of service credit. Part-time teachers received less service credit than allowed because the ROP used the higher 210-day FTE.

We did not test all teachers, but noted that the ROP incorrectly reported summer school earnings totaling \$27,512 for three teachers for the months of July and August of 1995. The member and employer contributions overpaid to STRS for these three teachers amount to \$4,470.70.

### **Adjustments Needed**

The ROP must report appropriate corrections for its 35 teachers for the 1995-96 school year. The corrections must include reporting a pay-rate that does not include the summer session as well eliminating summer session earnings.

Because the accumulated effect of the inappropriate reporting can have a material effect on members who worked for the ROP in prior years and retire in the future, the ROP must research its records and report appropriate prior year corrections to STRS. In consideration of various statute of limitations, the ROP should make corrections back to July 1, 1994.

**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of La Puente Valley ROP  
La Puente, CA**

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Period Audited:	July 1, 1995 to June 30, 1996	For Audit of Active Members
	July 1, 1990 to June 30, 1996	For Audit of Retired Members

Audit Report Date: June 25, 1998

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**Audit Cost-Benefit Summary:**

Benefit:

Corrections to contributions	\$ 374
Retirement allowance, unfunded liability (net present value)	14,184
Excess post-retirement earnings	_____

Cost:

Direct costs	
(Staff salaries, fringe benefits, travel and per diem)	\$7,328

TOTAL DOLLAR EFFECT	<u>\$ 14,558</u>	<b>Benefit per Dollar Spent</b>	<b>\$ 1.99</b>
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Unreported post-retirement earnings	<u>\$ 0</u>
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**1. Finding:**

**The ROP Reported Longevity Stipends as Non-Creditable Compensation.** The ROP inappropriately reported to STRS \$2,300 in longevity stipends for three members as non-creditable compensation during the 1995-96 school year. Compensation for service that is based on years of experience and years of education is creditable for retirement purposes. Because these creditable stipends were reported as non-creditable, the ROP and members did not contribute their shares of \$373.75. If the members were to retire and this year was used to determine their benefits, their lifetime retirement allowances would have been less than the law allows.

**Adjustments Needed**

The ROP must report longevity stipends as creditable compensation on the F-496, Monthly Report of Retirement Contributions, to STRS within 60 days of the final audit report date in accordance with Education Code Section 23008(a).

## **2. Finding:**

**The ROP Reported Incorrect Contract Base Service Days and Unused Basic and Excess Sick Leave Days for a Member Who Retired.** The ROP understated the contract base service days by 21 days and overstated the accumulated unused sick leave days by 112.5 days for a former administrator who retired in July 1995. Additionally, the ROP inappropriately identified 65.044 days as being unused excess sick leave days and consequently overpaid STRS \$4,323.10.

**Contract Base Service Days:** The ROP reported 225 days as the contract base service days which did not include 21 days of paid vacation. The ROP should have reported 246 days for this former administrator.

**Accumulated Unused Sick Leave Days:** The ROP reported to STRS this member's unused sick leave as being 447.64 days, which our audit determined to be overstated by 112.5 days. The error was traced to a report from the member's previous school district (district A) when he transferred into the ROP. The previous district responded on the ROP's form, Verification of Service and Accumulated Sick Leave, but this form was not clear in its definitions and the form was not properly reviewed and approved by the ROP.

**Unused excess sick leave days:** STRS routinely reviews retirement calculations to detect possible errors. Because this member had just under 32 years of service credit, it was highly unlikely that he would have more than 382 days of unused sick leave, assuming 12 days earned each year and no sick days used in his long career. Because the ROP had reported 447.64 days, the difference of 65.044 days was either an over statement of his unused sick leave or excess days the ROP had granted him. However, this member did not qualify for excess sick leave days according to ROP board policy, therefore the 65.004 days were simply an overstatement of his unused basic sick leave days. The ROP did not detect the errors explained above. Almost a year after the member retired, the ROP submitted STRS Form MS 0559, Employment Termination or Sick Leave Data Correction, and inappropriately identified 65.044 days as being excess days and inappropriately paid STRS \$4,323.10, the present value of the 65.044 unused excess sick leave days.

The overstatement of 112.5 days of unused sick leave and the understatement of 21 contract base service days caused this member's monthly unmodified retirement allowance to be overstated by \$66.12 since his retirement in July 1995, with a present value cost of \$9,860.87.

## **Adjustments Needed**

The ROP must report corrections to this member's contract base service days, unused basic sick leave days, and unused excess sick leave days within 60 days of the final audit report date in accordance with Education Code Section 23008(a).

**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of Newport-Mesa Unified School District  
Newport, CA**

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Period Audited: July 1, 1994 to June 30, 1995 - For Audit of Active Members  
July 1, 1989 to Dec 31, 1995 - For Audit of Retired Members

Audit Report Date: June 29, 1998

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**Audit Cost-Benefit Summary:**

<u>Benefit:</u>		<u>Cost:</u>	
Corrections to contributions	\$ 2,828	Direct costs	
Retirement allowance, unfunded liability (net present value)	108,449	(Staff salaries, fringe benefits, travel and per diem)	\$12,163
Excess post-retirement earnings	<u>0</u>		

<b>TOTAL DOLLAR EFFECT</b>	<b><u>\$111,277</u></b>	<b>Benefit per Dollar Spent</b>	<b>\$9.15</b>
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Unreported post-retirement earnings	<u>\$ 0</u>
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**1. Finding:**

**The District Reported Payments for Department Head Duties Without Release Time:**

The District inappropriately reported to STRS, non-creditable stipends paid for duties performed without release time to Department Heads/Chairs. Seven Department Heads/Chairs tested for school year 1994-1995 performed these duties outside their normal workday. The district has approximately 35 Department Heads/Chairs. The average stipend was \$2,485.86 per department head/chair, therefore the approximate total of stipends reported to STRS was \$87,005 for school year 1994-1995.

Ten Department Heads/Chairs retired from STRS during 1990-1991 through 1994-95. They received a total of \$45,264.46 non-creditable stipends during the period prior to their retirement, increasing their monthly retirement allowance by an amount ranging from \$13.63 to \$112.06. This created an unfunded liability (net present value) to STRS of \$105,596.

**Adjustment Needed:** The District was required to immediate stop reporting to STRS as creditable earnings the stipend paid to the Department Heads/Chairs performing the duties without release time. Also, the District was required to submit corrections for the three prior years for the ten members who retired.

## **2. Finding:**

**District Did Not Correct Unused Sick Leave Days After Members Retired:** The District did not submit an MS Form 0559, Employment Termination Or Sick Leave Data Correction, to correct a retiring member's unused sick leave previously reported on MS Form 0554E, Express Benefit or MS Form 0554, Employment Termination.

The District did not report correct unused sick leave days for the prior superintendent. The District had inadvertently overstated the sick leave days. Also, the contract base service days were understated. Because the District did not report the corrections, the member's retirement allowance was overstated by \$25.33 per month, which caused an unfunded liability of \$2,853.

**Adjustment Needed:** The District was required to report the correct unused sick leave days for the retired member. Based on the corrected report, STRS will make the necessary adjustments in his retirement allowances.



**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of Mark Twain Union Elementary School District  
Angels Camp, CA**

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Period Audited:      July 1, 1995 to June 30, 1996 - For Audit of Active Members  
                             July 1, 1993 to June 30, 1996 - For Audit of Retired Members

Audit Report Date:    July 30, 1998

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**Audit Cost-Benefit Summary:**

<u>Benefit:</u>		<u>Cost:</u>	
Corrections to contributions	\$     0	Direct costs	
Retirement allowance, unfunded liability (net present value)	0	(Staff salaries, fringe benefits, travel and per diem)	<u>\$ 4,539</u>
Excess sick leave (net present value)	0		
Excess post-retirement earnings	<u>0</u>		
 TOTAL DOLLAR EFFECT	 <u>\$     0</u>	 <b>Benefit per Dollar Spent</b>	 <b>\$ 0</b>
 Unreported post-retirement earnings	 <u>\$     0</u>		

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**1. Finding:**

We found no findings for the periods audited and no adjustments on the reported information were needed. The district was in compliance with the State Teachers' Retirement Law and related STRS Administrative Directives in reporting earnings and other retirement plan-related information to STRS.

**Adjustment Needed**

None.

**Office of Audits  
Executive Summary  
For the Budgets and Audits Committee  
Findings & Adjustments Needed  
Audit of Bret Harte Union High School District  
Angels Camp, CA**

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Period Audited:      July 1, 1995 to June 30, 1996 - For Audit of Active Members  
                             July 1, 1993 to June 30, 1996 - For Audit of Retired Members

Audit Report Date:    July 30, 1998

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**Audit Cost-Benefit Summary:**

<u>Benefit:</u>		<u>Cost:</u>	
Corrections to contributions	\$     0	Direct costs	
Retirement allowance, unfunded liability (net present value)	0	(Staff salaries, fringe benefits, travel and per diem)	<u>\$ 3,434</u>
Excess sick leave (net present value)	0		
Excess post-retirement earnings	<u>0</u>		
 TOTAL DOLLAR EFFECT	 <u>\$     0</u>	 <b>Benefit per Dollar Spent</b>	 <b>\$ 0</b>
 Unreported post-retirement earnings	 <u>\$     0</u>		

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**1. Finding:**

We found no findings for the periods audited and no adjustments on the reported information were needed. The district was in compliance with the State Teachers' Retirement Law and related STRS Administrative Directives in reporting earnings and other retirement plan-related information to STRS.

**Adjustment Needed**

None.

TEACHERS RETIREMENT BOARD  
BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Compliance Case Summary by County

ITEM NUMBER: 9d

ATTACHMENTS: \_\_\_\_\_

ACTION: \_\_\_\_\_

DATE OF MEETING: September 3, 1998

INFORMATION:   X  

PRESENTER: Mr. Lee

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- a. Orange
  - 1. Santa Ana Unified School District Completed 5/13/98
  - 2. Newport-Mesa Unified School District Completed 6/18/98
  - 3. Coast Community College District Completed 5/6/98
  - 4. Saddleback Community College District Completed 5/21/98
  - 5. Saddleback Community College District Completed 6/3/98
  - 6. Saddleback Community College District Completed 6/9/98
  - 7. Saddleback Community College District Completed 5/28/98
  - 8. Newport-Mesa Unified School District Completed 6/15/98
  - 9. La Habra Elementary School District Completed 6/4/98
- b. Alameda
  - 1. Oakland Unified School District Completed 5/27/98
  - 2. Hayward Unified School District Completed 6/9/98
- c. Sacramento
  - 1. Los Rios Community College District Completed 6/24/98
  - 2. Los Rios Community College District Completed 6/18/98
  - 3. San Juan Unified School District Completed 7/6/98
  - 4. San Juan Unified School District Completed 7/7/98
  - 5. San Juan Unified School District Completed 7/7/98
  - 6. North Sacramento Elementary SD Completed 7/27/98
- d. San Bernardino
  - 1. Fontana Unified School District Completed 6/19/98
- e. Santa Clara
  - 1. San Jose Unified School District Completed 6/3/98
  - 2. San Jose Unified School District Completed 5/20/98
- f. Los Angeles
  - 1. Azusa Unified School District Completed 7/1/98
- g. San Diego
  - 1. San Diego City Unified School District Completed 5/20/98

We completed 22 cases with no findings during the period of May through July 1998.

## BUDGETS AND AUDITS COMMITTEE

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SUBJECT: Summary of Dollars Saved or Corrected -

ITEM NUMBER: 9e

ATTACHMENTS: 1

ACTION:     

DATE OF MEETING: September 3, 1998

INFORMATION: X

PRESENTER: Mr. Lee

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The attached Summary of Dollars Saved or Corrected compares the 14 final school district audit reports issued in 1997-98 with the 31 reports issued in the previous three years. The second page presents the school district audits currently in progress. At the bottom of the first page we have provided a total of the 45 audit reports and determined the averages per district.

We sample, on average, approximately six percent of a district's population consisting of active members, recently retired members, and members performing post-retirement services. Of the 2,119 accounts we tested, we have found errors in 530 for an average error rate of 25 percent. This rate should be seen in its proper context. Our sample is not a true random sample; a true random sample would increase the risk that we would not discover material errors. We intentionally weight the sample to focus on conditions and events that are most likely to cause errors. The same 530 errors found over the total population of 34,360 members would result in an error rate of 1.54 percent.

The other significant number is that the 45 school district audits issued in the past four years have had a total dollar effect of nearly \$3 million. What cannot be shown on a numerical summary is the benefit of the on-site training that occurs as a by-product of audit discussions in the field, and the deterrent effect of the program of auditing randomly selected districts.

					D O L L A R      E F F E C T							
	Audit Report Date	Total Teachers & Retirants	Total Number of Accounts Audited	Total With Error	1 Active Members Correction of Contributions	2 Retired Members Net Present Value Effect	3 Unreported Post Retirement Earnings	4 Excess Earnings	Total Dollar Effect (Col 1+2+4)	Audit Budget	Hours Actual	Notes
Final Reports Issued in FY 94-95:												
7 Reports	Totals:	4,936	424	91	\$ 56,429	\$ 892,715	\$ 122,312	\$ 6,549	\$ 955,693	1,680	2,228	
Population & Sample Size					Dollar Effect					Hours		
Final Reports Issued in FY 95-96:												
4 Reports	Totals:	1,655	215	79	\$ 34,931	\$ 455,589	\$ 121,855	\$ 42,368	\$ 532,888	960	1,621	
Population & Sample Size					Dollar Effect					Hours		
Final Reports Issued in FY 96-97:												
20 Reports		10,301	884	236	\$ 60,262	\$ 508,113	\$ 696,274	\$ 325,857	\$ 894,232	4,690	7,438	
Population & Sample Size					Dollar Effect					Hours		
Final Reports Issued in FY 97-98:												
1 Glendale	Feb-98	1,558	65	1	-	-	-	-	-	270	250	
2 Palm Springs	Mar-98	828	39	3	1,400	9,873	-	-	11,273	230	239	
3 Orange	Mar-98	922	35	9	-	5,844	8,787	-	5,844	230	318	
4 East San Gabriel ROP	Mar-98	73	16	5	585	-	32,517	1,290	1,875	150	181 f	
5 Fremont	Apr-98	1,908	75	22	4,233	232,754	10,815	-	236,987	240	438	
6 Long Beach	Apr-98	4,583	55	6	2,490	30,151	-	-	32,641	270	618 a	
7 Antioch	Apr-98	797	37	7	2,636	14,154	2,000	-	16,790	230	537 e	
8 Riverside	Apr-98	1,884	45	32	2,056	131,610	-	-	133,666	270	359 f	
9 Corona-Norco	Apr-98	1,443	48	7	-	13,539	-	-	13,539	270	255	
10 ABC	May-98	1,320	50	1	-	3,797	-	-	3,797	230	365 f	
11 Baldwin Park	May-98	839	45	7	465	28,792	-	-	29,257	270	297	
12 Baldy View ROP	Jun-98	61	13	3	4,471	-	-	-	4,471	150	154 f	
13 La Puente ROP	Jun-98	63	13	4	374	14,184	-	-	14,558	150	199 f	
14 Newport Mesa	Jun-98	1,189	60	17	2,828	108,449	-	-	111,277	230	270	
Population & Sample Size					Dollar Effect					Hours		
4 Year & 45 Audits Totals:	45	34,360	2,119	530	\$ 173,160	\$ 2,449,564	\$ 994,560	\$ 376,064	\$ 2,998,788			
Average Per District:		764	47	12	\$ 3,848	\$ 54,435	\$ 22,101	\$ 8,357	\$ 66,640			
					</							

					D O L L A R      E F F E C T				September 3, 1998			
					1	2	3	4				
	Audit Report Date	Total Teachers & Retirants	Total Number of Accounts Audited	Total With Error	Active Members Correction of Contributions	Retired Members Net Present Value Effect	Unreported Post Retirement Earnings	Excess Earnings	Total Dollar Effect (Col 1+2+4)	Audit Budget	Hours Actual	Notes
Audit Field Work Completed (Data Subject To Change)												
1 San Mateo	94-95	684	55	7	\$ 26,500	\$ 67,500	@ \$ 30,200	\$ 8,000	\$ 102,000	240	542	a
2 Palo Alto	94-95	674	50	18	-	168,661	55,000	15,000	183,661	240	524	a, f
3 Lincoln	95-96	503	50	37	16,515	65,701	-	-	82,216	240	330	f
4 Anaheim Union	95-96	1,162	394	359	\$ 83,904	3,936	46,700	-	87,840	230	518	f
5 Vista	95-96	1,362	41	2	136	13,323	-	-	13,459	240	579	f
6 Inglewood	95-96	832	46	6	1,259	-	207,900	155,400	156,659	230	246	
7 Grossmont	95-96	1,445	45	9	138	23,634	-	-	23,772	230	344	f
8 Davis	95-96	531	45	16	1,276	-	10,826	1,466	2,742	230	192	
9 River Delta	96-97	140	32		-	-	-	-	-	270	148	
10 Calaveras County	96-97	199	11	1	-	46,317	-	-	46,317	270	366	
11 Mark Twain	96-97	37	5						-	150	55	
12 Bret Harte	96-97	49	7						-	150	48	
13 Calaveras Unified	96-97	209	16						-	150	62	
14 Vallecito	96-97	61	6						-	150	48	
15 San Juan	96-97	3,242	45						-	270	175	
16 Pomona	96-97	1,778	55	16		63,959			63,959	270	261	
17 Sacramento City	96-97	2,814	54	21	7,949	13,887	-	-	21,836	270	465	a
18 Compton	97-98	1,982	72	7	3,487	13,177			16,664	320	200	
19 Lynwood	97-98	750	57	11	1,775	1,451			3,226	320	181	
20 North Sacramento	97-98	349	50	9	3,380	17,454			20,834	320	148	
21 Los Angeles County	97-98	1766	87						-	320	148	
					\$ 146,320	\$ 498,999	\$ 350,626	\$ 179,866	\$ 825,185	5,110	5,580	
Population & Sample Size					Dollar		Effect		Hours			

**Notes:**

Audit Hours include travel time & Member Notification

Italic Print - Draft Report has been issued

a Includes new auditor OJT time

e District contended findings, extra work required.

f Original Auditor departed, audit reassigned

@ Potential loss avoided. Member has not retired.

\*\* Includes error by STRS staff

\$ Dept Chair stipends, effect is estimated average.